

Testimony of
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before the
International Trade Commission
regarding the imposition of steel safeguard tariffs
and the effect on the domestic steel consuming industries
June 20, 2003

INTRODUCTION

On behalf of the Association of Home Appliance Manufacturers (AHAM), I am pleased to present testimony today before the International Trade Commission (ITC) in its investigation of steel consuming industries and the impact of the 201 steel safeguard measures.

The Association of Home Appliance Manufacturers (AHAM) is a global trade association whose members are manufacturers of major, portable and floor care home appliances, as well as suppliers to appliance manufacturers. Domestic shipments of home appliances are valued at \$22 billion annually. Appliance industry manufacturers employ approximately 95,000 people in the United States.

Products covered in the major home appliance category include: refrigerators/freezers, freezers, clothes washers and dryers, dishwashers, gas and electric ranges, ovens and cooktops, microwave ovens, room air conditioners and dehumidifiers. Portable home appliances include kitchen electronics such as toasters, coffee makers, waffle irons, can openers, slow cookers, deep fryers; personal care products such as hair dryers, curling irons, shavers and trimmers; air treatment products such as portable air cleaners, fans and humidifiers; and garment care products. Floor care appliances include products such as full-size household vacuum cleaners, wet/dry vacuums and floor scrubbers.

BACKGROUND

On March 18, 2003 the Chairman of the U.S. House of Representatives Ways and Means Committee requested that the ITC conduct a study, as provided for under Section 332(g) of the Tariff Act of 1930, to examine the effect of the tariffs imposed by the President on March 5, 2002 in order to determine their effect on those industries that consume steel.

Many private sector individuals will be testifying as a part of this investigation, as the 201 steel safeguard tariffs have had a significant impact on many of the industries that consume steel products. Our industry is no exception. From major appliances such as refrigerators and clothes washers to portable and floor care products such as waffle irons and vacuum cleaners, many of the products manufactured by our industry include steel as a critical component. AHAM is pleased to have the opportunity to provide the perspective of the home appliance industry in these hearings.

THE HOME APPLIANCE INDUSTRY AND STEEL

Use of steel in home appliances is substantial. In fact, the home appliance industry obtains most of its steel needs from domestic suppliers. AHAM estimates steel consumption by our industry to be roughly 3 million tons per year. This figure, however, does not take into account the fact that total steel content in home appliances has actually decreased over time. In a study performed for the Major Appliance Resource Management Alliance by Roy F. Weston, Inc., the steel content of appliances produced in 1997 versus those found in recycling yards or landfills was analyzed.¹ Discarded products averaged 19 years in age. For each of the "AHAM 6" (refrigerators, freezers, ranges, washers, dryers and dishwashers), steel and total ferrous metal content decreased. As I will discuss later in this testimony, these changes in the composition of home appliance products are relevant to the analysis that the ITC must undertake.

Commissioners, I am here today because our members believe that the 201 safeguard remedy does not reflect the global nature of today's manufacturing. The home appliance industry manufactures a variety of products that require specific types of steel meeting strict quality standards, delivered in a timely manner. The 201 steel tariffs have had a dramatic and negative effect on our industry, and we believe that a revaluation of the costs and benefits of this remedy must be undertaken.

Please understand that AHAM supports the U.S. steel industry in its efforts to ensure that trade in steel is done fairly and in accordance with multilateral trade rules. As you know, the World Trade Organization (WTO) agreements provide for countries to impose anti-dumping and countervailing duties on imports from countries that subsidize their steel manufacturers production and producers who unfairly dump steel on the U.S. market. In fact, there are numerous antidumping and countervailing duty orders currently in place which represent approximately 50% of current steel imports on such products as hot-rolled, stainless and plate steel products that shield domestic steel producers from unfair trading practices. The 201 steel safeguard remedy, however, does not take these antidumping or countervailing duties into account, and instead imposes additional duties on a wide range of steel products.

STEEL TARIFFS AND PRICE INCREASES

The most pernicious effect of the steel safeguard tariffs has been the widely anticipated price increases for steel products generally. This has hit the manufacturing sector, as a whole,

¹ Roy F. Weston, Inc. Recycling Rate Determinant Study, Phase I Report, September 1997.

very hard. According to a February 2003 study produced for The Consuming Industries Trade Action Coalition (CITAC) by Dr. Joseph Francois and Laura Baughman of the Trade Partnership Worldwide, LLC, over 200,000 Americans lost their jobs as a result of higher steel prices in 2002, resulting in over \$4 billion in lost wages.² These job losses occurred in such states as California, Texas, Ohio, Michigan, Illinois, Pennsylvania, New York and Florida. AHAM members have a large presence in most of those states as well as Arkansas, Indiana, Iowa, Kentucky, Ohio and Tennessee.

The most direct and damaging effect of the 201 steel safeguard tariffs on the home appliance industry have been these price increases. In large part, our companies are considered to be "price takers" in the marketplace and as such, when they face significant increases in input costs, such as steel, they cannot pass these increases onto customers. This is because of the highly competitive nature of this industry and the general over-capacity in appliance manufacturing throughout the world. Ironically, the domestic home appliance manufacturing industry is in a similar position to the domestic steel industry with regard to intense global competition and the inability to pass costs through to the consumer.

According to the U.S. Bureau of Labor Statistics, the Producer Price Index, which measures the average change in prices at the manufacturing level, shows that average prices increased 320% from 1972 through 2002 for all commodities but only 79% for major appliances. Likewise, major appliance prices have increased less than those of most other goods and services due to an intensely competitive industry, higher production efficiencies and the traditional consumer resistance to higher purchase costs. The Consumer Price Index (CPI) reflects this trend. Home appliances show a smaller average change in price than all items combined in the CPI measure. From 1982-84 to 1996 the price index for refrigerators and freezers rose 8.9% and laundry equipment rose 10.5% compared to a 66.6% increase in the composite index for all items.

These moderate price increases for home appliance products are remarkable in light of the fact that our industry is heavily regulated and must expend significant amounts of money in order to comply with federal energy efficiency standards. For example, the industry faces a clothes washer standard in 2004 which will cost an estimated \$300 million. As a result, our industry's products are highly energy efficient, however, many manufacturers of such products as refrigerators, clothes washers and dishwashers cannot pass these additional costs onto the consumer.

While AHAM members include U.S.-based manufacturers as well as those from virtually every other significant appliance manufacturing country, the majority of major home appliances, purchased by U.S. consumers, are manufactured in the United States. In the case of portable appliances, however, the majority of products produced for purchase in this country have shifted outside of U.S. borders due to material and labor costs.

² Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002, Dr. Joseph Francois and Laura Baughman, February 4, 2003, p. 14

The bottom line is that like many manufacturers, home appliance manufacturers must address rising input prices through cost cutting elsewhere in the production process.

THE HOME APPLIANCE INDUSTRY'S EXPERIENCE

Over the past several years, the energy efficiency and overall value of home appliances have increased dramatically, although these benefits have not been reflected in cost increases to the consumer. As such, while steel is a very important material in home appliance content, manufacturers have decreased its use in the past twenty years due to its impact on energy efficiency, weight and cost. However, as steel prices have increased, as a result of the 201 safeguard tariff, the difficulty of passing through such costs may cause manufacturers to expand the search for alternative materials. Ironically, the unintended result of this process may be decreased demand for steel products and a further eroding of the economic position of domestic steel producers.

Since the imposition of the 201 safeguard tariffs last year, our member companies have faced significant increases in the cost of steel products, but more importantly, have experienced changes in domestic supplier behavior. This has included decreased flexibility in setting delivery dates, longer lead times for deliveries, and missed deliveries that have led to subsequent work stoppages. More troubling, our members have experienced difficulties in obtaining quality steel from domestic steel producers. This is a significant issue for our industry because quality is a hallmark; our companies require the highest quality steel product available. Finally, due to a lack of availability of some steel products from domestic suppliers, our companies have had to curtail their production, and in some cases, change product assembly schedules, with a resulting reduction in profits.

The price increases experienced by AHAM members over the past year have been dramatic. Several of our companies' purchases of hot- and cold-rolled and galvanized steel under contract saw price increases from 17% to 30% from pre-April 2002 levels. Increases from a year ago in steel prices on the spot market have averaged over 37%. Due to the nature of our industry, as described above, these significant increases were necessarily absorbed by manufacturers and resulted in corresponding cutbacks in production.

Lastly, these steel tariffs have affected our domestic members' ability to compete with competitors who manufacture home appliances overseas and who do not face the same difficulties in purchasing steel. Our companies face a very competitive domestic and international market, as well as a very demanding federal regulatory scheme. These factors are contributing to pressures to move manufacturing operations and jobs offshore. As noted earlier, while a majority of portable appliances purchased in the U.S. are produced abroad, most major appliance products are still manufactured in the U.S. However, we are seeing a trend in the major appliance category of microwave ovens and room air conditioners where the vast majority of appliances produced in these two categories are now being manufactured outside of the United States. Only one manufacturer of microwave household ovens is still located in the U.S. This trend will undoubtedly continue unless the safeguard remedy is immediately removed.

CONCLUSION

In summary, AHAM opposes the 201 steel safeguard tariffs. We believe that the time has come to terminate the program. In fact, AHAM members have raised the steel safeguard tariff issue with members of Congress and their staffs as a priority issue affecting the industry. We see this as a key issue because our industry operates in a very competitive market and must continually address costs and efficiencies in the manufacturing process. Our customers have many purchasing options, and as a result, our members are always striving to please current customers and attract new ones.

We do, however, hope for a resolution of the problem facing the domestic steel industry that provides them with the relief that they need, but at the same time does not harm our industry. Such a solution challenges public and private officials to create incentives for U.S. steel producers to regain their competitive footing.

I thank the Commission for the opportunity to present testimony, and would welcome your questions and comments.